

Tax Credit: Geothermal Heat Pump Tax Credit

The Geothermal Heat Pump Tax Credit is available for qualified installations on residential property located in Iowa. The state credit is equal to 20.0% of the federal residential energy efficient property tax credit. The federal credit is equal to 30.0% of installation costs, so that makes the Iowa credit equal to 6.0% of costs and the combined federal and state credit is equal to 36.0%.

The total amount of tax credits available in a year for a single taxpayer and for all taxpayers combined is not limited. Oversight is a function of Department of Revenue tax return auditing. The tax credit is not refundable or transferable but unused credits may be carried forward.

Tax Credit Background

- Enabling Legislation: [2012 Iowa Acts chapter 1121](#) (Tax Credits and Exemptions Act)
- Code Citations: [Section 422.111](#)
- Administrative State Agency: None
- Sunset Date: There is no sunset date for the Iowa credit but it is based on a federal credit that does sunset.
- Transferable: No
- Refundable: No
- Carryforward: Unused tax credits may be carried forward for up to 10 years.
- Legislative Tax Expenditure Committee Review Years: Review of this credit is not a duty of the Committee.

Legislative History

The Geothermal Heat Pump Tax Credit has not been modified since its original enactment in 2012. The state tax credit is based on a percentage of the federal tax credit available for geothermal installations. The federal credit is scheduled to sunset at the end of calendar year 2016. If and when the federal credit is no longer available, the state credit will also no longer be available. The 2016 Legislature enacted a second geothermal tax credit in [HF 2468](#) (Department of Revenue Miscellaneous Changes Act). The new state geothermal credit is not dependent on a federal credit and is equal to 10.0% of qualified geothermal heat pump installation expenditures. The new credit is available beginning calendar year 2017. Should the existing federal credit be extended, Iowa will have two separate residential geothermal heat pump tax credits beginning with 2017. If this is the case, the taxpayer is required to choose between the two state tax credits.

Tax Credit Review, Usage, and Future Liability

The Geothermal Heat Pump Tax Credit is not included on the list of tax credits to be reviewed by the Tax Expenditure Committee so the Department of Revenue has not completed a thorough review of the tax credit usage and benefits. Based on factors used for the fiscal estimate when the tax credit was created, residential geothermal installations would earn an average of \$1,050 in state tax credits. From FY 2013 through FY 2015, an estimated \$5.8 million in tax credits have been redeemed. While this translates to about 5,500 residential geothermal installations, the actual number of installations is higher because as a nonrefundable tax credit, a portion of the tax redemptions for existing installations will occur in future tax years.

More Information

Department of Revenue Contingent Liabilities Report: <https://tax.iowa.gov/report/Contingent-Liabilities>

Department of Revenue Tax Credit Users' Manual: <https://tax.iowa.gov/report/Background?combine=Users%20Manual>

Legislative Services Agency Income Tax Guide: <https://www.legis.iowa.gov/docs/publications/LG/711304.pdf>

LSA Staff Contact: Jeff Robinson (515-281-4614) Jeff.Robinson@legis.iowa.gov

Tax Credit: Geothermal Heat Pump Tax Credit

The Department of Revenue reports on the annual credit usage for the Geothermal Heat Pump Tax Credit in its periodic [Contingent Liabilities Report](#). Based on Table 9 of that report, the following table and graph provide credit redemption history and projections for the Geothermal Heat Pump Tax Credit on a fiscal year basis. The blue bars of the graph indicate actual credit redemptions, while the red bars are Department of Revenue projections of future redemptions. Note that the projected reduction in tax credit redemptions that begins with FY 2018 is the result of the impending sunset of the federal tax credit at the end of calendar year 2016.

Geothermal Heat Pump Tax Credit			
<u>Fiscal Year</u>	<u>Tax Credit Redemptions</u>	<u>Fiscal Year</u>	<u>Tax Credit Redemptions</u>
FY 2005	\$ 0	FY 2013	\$ 1,555,338
FY 2006	0	FY 2014	1,960,227
FY 2007	0	FY 2015	2,246,189
FY 2008	0	FY 2016 Projected	2,294,443
FY 2009	0	FY 2017 Projected	2,490,986
FY 2010	0	FY 2018 Projected	358,426
FY 2011	0	FY 2019 Projected	77,367
FY 2012	0	FY 2020 Projected	67,378

